



METAWATER Co., Ltd.

For Immediate Release

January 31, 2023

CONSOLIDATED RESULTS FOR THE NINE MONTHS ENDED DECEMBER 31, 2022 (Unaudited)

[JP GAAP]

Company name	METAWATER Co., Ltd.
Stock exchanges on which the shares are listed	Prime Market of Tokyo Stock Exchange
Securities code	9551
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Filing date of quarterly securities report	February 9, 2023
Payment date of cash dividends	—
Supplementary information materials on quarterly results	Available
Quarterly results briefing	Will not be held

(Amounts are rounded down to the nearest million yen)

1. Highlight of consolidated results for the nine months ended December 31, 2022

(1) Consolidated operating results (year-to-date)

(Percentages are year-to-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2022	77,748	16.7	(2,023)	—	(1,428)	—	(1,316)	—
Nine months ended December 31, 2021	66,597	13.8	(2,640)	—	(2,380)	—	(1,824)	—

Note: Comprehensive income: Nine months ended December 31, 2022 2,086 million yen — %
 Nine months ended December 31, 2021 (814) million yen — %

	Net income per share - Basic -	Net income per share - Diluted -
	Yen	Yen
Nine months ended December 31, 2022	(30.21)	—
Nine months ended December 31, 2021	(41.89)	—

Notes: For the purpose of calculating the net income per share, Metawater shares held in the Impact Neutralization Trust® are not included in the number of treasury stock to calculate the average number of shares issued and outstanding for the period.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity to total assets
	Million yen	Million yen	%
As of December 31, 2022	125,098	60,735	47.4
As of March 31, 2022	133,065	59,548	44.5

Note: Shareholders' equity: As of December 31, 2022 59,309 million yen
As of March 31, 2022 59,246 million yen

2. Dividends

Period	Dividends per share				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	—	20.00	—	20.00	40.00
Fiscal year ending March 31, 2023	—	20.00	—		
Fiscal year ending March 31, 2023 (Forecast)				20.00	40.00

Note: Revision of forecast for dividends from the latest announcement: No

3. Forecast for consolidated operating results for the fiscal year ending March 31, 2023

(Percentages are year-to-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share - Basic -
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending March 31, 2023	149,000	9.9	9,300	14.2	9,300	6.3	6,300	0.9	144.53

Note: Revision of forecast for operating results from the latest announcement: No

Notes:

- (1) Changes in significant subsidiaries during the nine months ended December 31, 2022 (Changes in specified subsidiaries that caused a change in the scope of consolidation): No
- (2) Application of accounting method specific to preparation of quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - (a) Changes by a newly issued or amended accounting pronouncement: Yes
 - (b) Changes other than (3)-(a) above: No
 - (c) Changes in accounting estimates: No
 - (d) Retrospective restatement: No
- (4) Number of shares issued and outstanding (common stock)
 - (a) Number of shares issued and outstanding at the end of the period (including treasury stock): 47,758,500 shares as of March 31, 2022 and 47,758,500 shares as of December 31, 2022.
 - (b) Number of treasury stock at the end of the period: 4,196,064 shares as of March 31, 2022 and 4,168,064 shares as of December 31, 2022.
 - (c) Average number of shares issued and outstanding for the period: 43,551,406 shares for the nine months ended December 31, 2021 and 43,579,236 shares for the nine months ended December 31, 2022.

Notes: Metawater shares held in the Impact Neutralization Trust® are not included in the number of treasury stock to be deducted from the gross number of shares issued and outstanding at the end of the period.

* This quarterly report is not subject to the quarterly review performed by certified public accountants or accounting firm.

*** Appropriate use of forecasts and other matters**

Descriptions and statements in relation to estimates and other forward-looking projections disclosed in this document are based on judgments and assumptions using information currently available to the Company. Actual results may differ significantly from such projections due to risks of uncertainty inherent in such judgments and assumptions as well as changes in business operations and the internal and external environment of the Company. As such, the Company does not guarantee the accuracy of any forward-looking projections disclosed.

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1. Qualitative Information Regarding Consolidated Results for the Nine Months Ended December 31, 2022

(1) Explanation of Operating Results

Japanese economy during the nine months ended December 31, 2022 showed signs of modest recovery, as the severe situation due to the effect of COVID-19 eased and the economic and social activities have gradually normalized. The global economy also continued to recover modestly. Meanwhile, there are concerns about downside risks to the economy, including rising raw material prices, disruption of supply chain and the shortage of semiconductors due to depreciation of Japanese Yen, prolonged situation in Ukraine and economic slowdown in China.

Under such circumstances, the Group continues to make company-wide efforts to achieve the Midterm Business Plan 2023 (through the fiscal year ending March 31, 2024), by focusing on the following priority measures: i) enhancement of foundation field and expansion of growth field, ii) increase in R&D investment and iii) efforts of sustainable ESG.

The operating results of the Group for the nine months ended December 31, 2022 are as the table below.

Both net sales and operating income increased year on year, as a result of steady growth of the North American subsidiaries in the overseas business, as well as the consolidation of K.K. Mizumusubi Management Miyagi in the PPP business. Ordinary income includes the ¥553 million of foreign exchange gain due to depreciation of Japanese Yen.

Our business consists mostly of the domestic public work projects for government agencies, which are typically developed and completed intensively in the fourth quarter. As a result, operating results for the first nine months tend to be low, and this fiscal year is no exception.

	Nine months ended December 31, 2021 (Million yen)	Nine months ended December 31, 2022 (Million yen)	Increase/ (decrease) (Million yen)	Increase/ (decrease) (%)
Net sales	66,597	77,748	11,151	16.7
Operating income	(2,640)	(2,023)	617	—
Ordinary income	(2,380)	(1,428)	952	—
Profit attributable to owners of parent	(1,824)	(1,316)	507	—
Order received	122,313	120,985	(1,328)	(1.1)
Order backlog	225,023	230,850	5,827	2.6

The Group's business consists of two segments: Plant Engineering Business Segment including EPC (note 1) as foundation field and overseas business as growth field, and Service Solutions Business Segment including O&M (note 2) as foundation field and PPP (note 3) as growth field.

Operating results by segment are as follows:

Notes:

1. EPC: Engineering, Procurement and Construction
2. O&M: Operation and Maintenance
3. PPP (Public-Private Partnership): the means for the private sector to participate in providing services to the public

(Plant Engineering Business)

The operating results of the Plant Engineering Business are as the table below.

In the EPC business, net sales increased year on year, while operating income decreased year on year due to the difference in gross profit margins for certain large projects. In the overseas business, both net sales and operating income increased year on year, mainly as a result of steady performance of North American subsidiaries.

	Nine months ended December 31, 2021 (Million yen)	Nine months ended December 31, 2022 (Million yen)	Increase/ (decrease) (Million yen)	Increase/ (decrease) (%)
Net sales	39,820	47,153	7,333	18.4
Operating income	(2,428)	(1,676)	752	—
Order received	65,493	72,565	7,071	10.8
Order backlog	124,699	140,037	15,337	12.3

(Service Solutions Business)

The operating results of the Service Solutions Business are as the table below.

In the O&M business, both net sales and operating income decreased year on year. In the PPP business, both net sales and operating income increased year on year, as a result of the consolidation of K.K. Mizumusubi Management Miyagi.

	Nine months ended December 31, 2021 (Million yen)	Nine months ended December 31, 2022 (Million yen)	Increase/ (decrease) (Million yen)	Increase/ (decrease) (%)
Net sales	26,777	30,595	3,818	14.3
Operating income	(212)	(347)	(134)	—
Order received	56,819	48,419	(8,400)	(14.8)
Order backlog	100,323	90,812	(9,510)	(9.5)

(2) Explanation of Financial Position

Total assets as of December 31, 2022 decreased by ¥7,966 million compared to March 31, 2022 to ¥125,098 million.

Current assets decreased by ¥15,114 million compared to March 31, 2022 to ¥93,824 million due to a decrease in cash and deposits as well as accounts receivable - trade, offsetting an increase in work in process.

Non-current assets increased by ¥7,148 million compared to March 31, 2022 to ¥31,274 million due to an increase in investment securities.

Current liabilities decreased by ¥9,496 million compared to March 31, 2022 to ¥47,483 million due to a decrease in accounts payable - trade, offsetting an increase in contract liabilities.

Non-current liabilities increased by ¥343 million compared to March 31, 2022 to ¥16,880 million due to an increase in PFI and other project finance loans.

Total net assets increased by ¥1,186 million compared to March 31, 2022 to ¥60,735 million due to an increase in foreign currency translation adjustment, offsetting a decrease in retained earnings due to the recognition of loss attributable to owners of parent and payment of dividends.

(3) Explanation of Consolidated Business Forecast

There is no change in the forecast for the fiscal year ending March 31, 2023 announced on April 27, 2022.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	21,290	15,392
Notes and accounts receivable - trade, and contract assets	77,364	52,491
Work in process	1,721	11,123
Supplies	6,225	7,734
Other current assets	2,337	7,082
Total current assets	108,939	93,824
Non-current assets		
Property, plant and equipment	4,548	5,394
Intangible assets		
Goodwill	2,406	2,740
Customer-related assets	4,239	4,997
Right to operate public facilities	1,000	962
Other	2,843	3,731
Total intangible assets	10,489	12,432
Investments and other assets	9,087	13,446
Total non-current assets	24,125	31,274
Total assets	133,065	125,098

(1) Quarterly Consolidated Balance Sheets (continued)

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	23,829	11,706
Electronically recorded obligations	10,682	6,530
Short-term loans payable	903	4,095
Current portion of PFI and other project finance loans	875	888
Income taxes payable	2,759	274
Contract liabilities	7,509	15,135
Provision for warranties for completed construction	1,246	1,213
Provision for loss on construction contracts	919	821
Other current liabilities	8,255	6,817
Total current liabilities	56,980	47,483
Non-current liabilities		
Long-term loans payable	917	—
PFI and other project finance loans	9,711	11,164
Liability for retirement benefit	4,107	4,179
Other non-current liabilities	1,799	1,536
Total non-current liabilities	16,536	16,880
Total liabilities	73,516	64,363
Net assets		
Shareholders' equity		
Capital stock	11,946	11,946
Capital surplus	9,406	9,411
Retained earnings	46,380	43,320
Treasury stock	(7,137)	(7,089)
Total shareholders' equity	60,595	57,589
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	66	(569)
Deferred gains or losses on hedges	(35)	43
Foreign currency translation adjustment	(169)	3,224
Remeasurements of defined benefit plans	(1,210)	(978)
Total accumulated other comprehensive income	(1,349)	1,720
Non-controlling interests	302	1,426
Total net assets	59,548	60,735
Total liabilities and net assets	133,065	125,098

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

Quarterly Consolidated Statement of Income

	(Millions of yen)	
	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Net sales	66,597	77,748
Cost of sales	55,233	64,395
Gross profit	11,364	13,353
Selling, general and administrative expenses	14,005	15,377
Operating loss	(2,640)	(2,023)
Non-operating income		
Interest income	107	98
Dividends income	59	62
Share of profit of entities accounted for using equity method	—	88
Foreign exchange gain	219	553
Miscellaneous income	52	140
Total non-operating income	439	943
Non-operating expenses		
Interest expenses	119	158
Loss on disposal of non-current assets	54	64
Miscellaneous loss	6	125
Total non-operating expenses	179	348
Ordinary loss	(2,380)	(1,428)
Loss before income taxes	(2,380)	(1,428)
Income taxes	(462)	(298)
Net loss	(1,918)	(1,129)
Profit (loss) attributable to non-controlling interests	(94)	186
Loss attributable to owners of parent	(1,824)	(1,316)

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income (continued)

Quarterly Consolidated Statement of Comprehensive Income

	(Millions of yen)	
	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Net loss	(1,918)	(1,129)
Other comprehensive income		
Valuation difference on available-for-sale securities	(2)	(635)
Deferred gains or losses on hedges	—	226
Foreign currency translation adjustment	864	3,393
Remeasurements of defined benefit plans	241	231
Total other comprehensive income	1,103	3,216
Comprehensive income	(814)	2,086
(Details)		
Comprehensive income attributable to owners of parent	(720)	1,753
Comprehensive income attributable to non-controlling interests	(94)	333

(3) Notes to Quarterly Consolidated Financial Statements

Notes on Going Concern Assumption

No items to report.

Notes on Significant Changes in Shareholders' Equity

No items to report.

Application of Accounting Method Specific to Preparation of Quarterly Consolidated Financial Statements

(Calculation of Tax Expenses)

Tax expenses are calculated by reasonably estimating the effective tax rate applied to income before income taxes for the consolidated fiscal year including the nine months ended December 31, 2022 after applying tax effect accounting, and multiplying income before income taxes for the quarter by such effective tax rate.

Changes in Accounting Policies

As of April 1, 2022, the Group adopted the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, issued on June 17, 2021) (hereinafter referred to as “ASBJ Guidance No. 31”). In accordance with the transitional treatment prescribed in Paragraph 27-2 of ASBJ Guidance No. 31, the Group adopted ASBJ Guidance No. 31 prospectively. This has no impact on the quarterly consolidated financial statements of the Group.

Additional Information

(Accounting Method of the Impact Neutralization Trust®)

For the third quarter of the fiscal year ending March 31, 2023, the Company acquired its own shares (hereinafter the “Metawater shares”) from its major stockholders including NGK INSULATORS, LTD. and FUJI ELECTRIC CO., LTD., and sold some of those shares in the market using the scheme of the Impact Neutralization Trust® (hereinafter the “Trust”) for the purpose of increasing the number of tradable shares. The accounting treatment of transactions using such a scheme is not specified in the related accounting standards. The Company applied the accounting method below on its transactions.

1. Outline of the transactions

The Trust is a self-benefit trust, which acquires Metawater shares through off-floor trading at the Tokyo Stock Exchange (ToSTNeT-2) from shareholders using the funds contributed by the Company, and then sells those shares in the market over a certain period. The proceeds from the sales of Metawater shares are distributed to the Company periodically at a predetermined schedule.

2. Accounting principles and procedures

Metawater shares acquired by the Trust scheme are recognized as “Investment securities” at the acquisition costs (including the associated costs). Metawater shares held in the Trust at the period end are included in “Investment securities” based on the market price at the period end. The difference between the acquisition costs (including the associated costs) and the market price is reflected in the “Valuation difference on available-for-sale securities”.

For the purpose of calculating the net income per share, Metawater shares held in the Trust are not included in the number of treasury stock to calculate the average number of shares issued and outstanding for the period.

The difference between the acquisition costs (including the associated costs) and the sales price in the market of Metawater shares sold by the Trust during the third quarter of the fiscal year ending March 31, 2023 is included in “Loss on sales of investment securities”.

In accordance with the accounting principles above, ¥4,581 million of “Investment securities” in Investments and other assets and ¥-633 million of “Valuation difference on available-for-sale securities” are recognized on the quarterly consolidated balance sheets as of December 31, 2022. Also, ¥45 million of “Loss on sales of investment securities” in Miscellaneous loss of Non-operating expenses is recognized on the quarterly consolidated statement of income for the nine months ended December 31, 2022. The acquisition costs (including the associated costs) of Metawater shares acquired during the third quarter of the fiscal year ending March 31, 2023 is ¥5,748 million.

Segment Information

Net sales and income or loss by reportable segment for the nine months ended December 31, 2021
(Millions of yen)

	Reportable segments			Adjustments	Consolidated
	Plant Engineering Business	Service Solutions Business	Total		
Net Sales					
Sales to third parties	39,820	26,777	66,597	—	66,597
Inter-segment transactions and transfers	—	—	—	—	—
Total	39,820	26,777	66,597	—	66,597
Segment loss	(2,428)	(212)	(2,640)	—	(2,640)

Note: Segment loss is based on operating loss. There is no difference between segment loss and operating loss recorded on the quarterly consolidated statement of income.

Net sales and income or loss by reportable segment for the nine months ended December 31, 2022
(Millions of yen)

	Reportable segments			Adjustments	Consolidated
	Plant Engineering Business	Service Solutions Business	Total		
Net Sales					
Sales to third parties	47,153	30,595	77,748	—	77,748
Inter-segment transactions and transfers	—	—	—	—	—
Total	47,153	30,595	77,748	—	77,748
Segment loss	(1,676)	(347)	(2,023)	—	(2,023)

Note: Segment loss is based on operating loss. There is no difference between segment loss and operating loss recorded on the quarterly consolidated statement of income.

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